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SUBJ: MANITOBA HYDRO ANNOUNCES MAJOR ELECTRICITY DEAL WITH MINNESOTA

Ref: Ottawa 0135

1. This message originates from the U.S. Consulate in Winnipeg.

2. SUMMARY: The announcement of a major hydroelectricity purchase agreement between Minnesota Power and the Canadian province of Manitoba brings the development of some of the 5000 mw of hydroelectricity generation capacity in Manitoba's north an important step closer. Significant amounts of this hydroelectricity will be available to U.S. markets in the upper Midwest, if the trans-border transmission capacity exists to deliver it (reftel).
END SUMMARY.

3. The decades-old logjam preventing the development of Manitoba's extensive hydroelectricity potential may have been broken with the announcement on January 29 of an agreement between Minnesota Power and Manitoba's government-owned hydroelectricity monopoly Manitoba Hydro. The deal between Manitoba Hydro and investor-owned Minnesota Power allows Minnesota Power to purchase surplus energy beginning 3/1/08. Q>Do#!BQQ1%V8Q-QQe|%"QQQmQQeQ4op-oyK0Qi|zQQ\ eX#]ox)`KVQx2?QQK:QU"Dm,_ ZQQQrest of the electricity go? Manitoba Hydro projects that increases in in-province demand for electricity will utilize some of the additional power, and small increases in exports to other markets in neighboring Canadian provinces and U.S. states may take up some more of the excess. But clearly Manitoba Hydro will have surplus electricity in 2020, with more available if the Gull Rapids project comes on-line with 600 mw. Manitoba Hydro would welcome an expansion of transmission capacity: either east-west, to facilitate more exports to other provinces, or north-south, to enhance its export options. The electricity would be available to potential customers either in the upper Midwest or neighboring provinces, but there is not sufficient transmission capacity to get all of it to either market.

8. In recent years Manitoba and Ontario have studied the possibility of building an ambitious east-west line to get Conawapa power to

Ontario markets. Though the cost of this line would be daunting, the persistent lack of investment in the grid in border U.S. States has encouraged some Canadian players to advocate more east-west infrastructure as a way to open up Canada's undeveloped generating potential. The Manitoba-Minnesota agreement is a strong signal that long-term trade on the established cross-border pattern can facilitate Canadian resource development in the future as well as it has in the past.

WILKINS